
J.C. Penney Company, Inc. · Annual Report 1968

The young lady on the cover represents
a typical urban Penney catalog customer.
She uses her catalog in a number of ways.
She buys from it by phone and mail, and
also uses it to help plan her store purchases.

This year we present a different kind of annual report—a report on *how* Penney's operates.

Last year we reported on our approach to executive development. This year some of our key management people report in by-lined articles on their areas of responsibility.

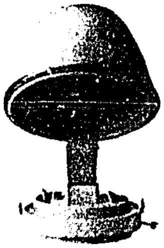
Penney's has changed substantially in recent years. And the Penney men reporting in these pages helped to bring about those changes. In addition to the year's developments they discuss the basic Penney philosophy that guides their planning and their day-to-day decisions.

Contents

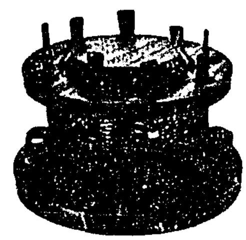
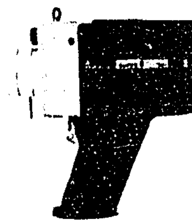
The merchandise on the opposite page represents only a few of the more than 82.000 items that can be found in our stores or in our catalog.

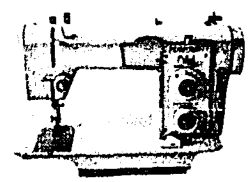
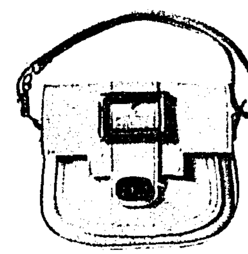
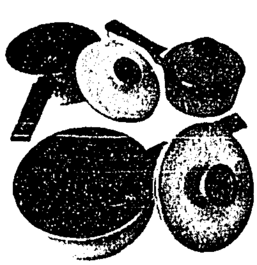
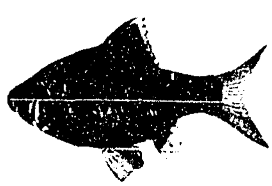
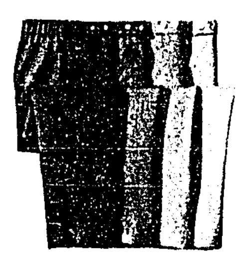
Financial Highlights*	1968	1967
Sales	$3,322,621,612	$2,881,323,343
Net income	109,251,841	91,622,945
Net income per share**	2.12	1.78
Dividends	45,973,454	45,591,475
Dividends per share**	.90	.90
Capital expenditures	126,688,595	110,746,090

*All figures, except dividends per share, reflect the acquisition of Thrift Drug Company of Pennsylvania in March 1969, on a pooling of interests basis.
**Retroactively adjusted to give effect to the two-for-one stock split in October 1968.

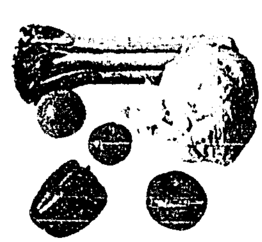
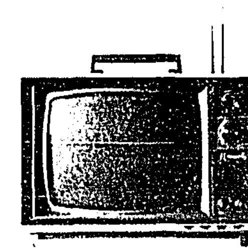







To Our Shareholders:

1968 was the most successful year in Penney's history. Penney's sales in 1968 were $3.3 billion, a gain of 15.3 per cent over 1967's $2.9 billion. Net income rose to $109.3 million, or $2.12 per share, compared with $91.6 million, or $1.78 per share, in 1967, an increase of 19.2 per cent.

It took Penney's 49 years to achieve its first one billion dollars of sales. It took an additional 13 years to reach the two billion dollar level; and only four more years to top the three billion dollar mark.

Per share earnings reflect the 1968 two-for-one stock split. The Federal income tax surcharge had the effect of reducing 1968 earnings by 22 cents per share.

Since 1963, when Penney's opened its first full-line store, earnings per share have increased by 95 per cent, which represents a compound annual growth rate of 14 per cent.

There were many new developments in 1968:

- In October shareholders voted a two-for-one stock split and approved an increase in the authorized number of common shares to 75 million.
- Shareholders also authorized five million preferred shares, none of which has been issued.
- The Company issued $125 million in convertible subordinated debentures in July.
- The quarterly dividend on the common stock was increased from 20 cents to 25 cents per share for an indicated annual rate of $1.00, compared with the previous rate of 90 cents. This was the third time in the past four years that the dividend was increased.

New dimensions for the Company have been added as a result of the following actions:

On March 12, 1969, Thrift Drug Company of Pennsylvania was acquired on the basis of 1.35 shares of Penney stock for each Thrift share. We became familiar with Thrift through its licensed health and beauty aid departments in our Treasure Island stores. We have acquired Thrift because its operations are a logical extension of our business, giving us a bigger share of a broader consumer market. Thrift, which operates units in ten states, reported earnings for its 1968 fiscal year of $2.2 million on sales of $76 million. We regard the Thrift management to be extremely knowledgeable and farsighted in the drug and health and beauty aid fields.

We made our first entry into foreign markets by acquiring an equity interest in Sarma, S.A., a well-established Belgian retailing organization, operating almost 100 stores and serving approximately 270 franchised units in that country. We acquired an interest in excess of 20 per cent of Sarma at a cost of $8.6 million. Sarma has sales of about $170 million.

Our growth in 1968 continued according to plan. The following information does not take into account Thrift Drug Company.

William M. Batten,
Chairman of the Board

• We opened a total of 36 stores, 18 of them relocations of older stores. Four of our new stores are Treasure Island units opened in Atlanta, Georgia. These were the first stores of this division outside of Wisconsin. We closed 20 stores in 1968 and had 1,662 stores at year end.

• We added 6.1 million gross square feet of store space. Average size of new stores we opened last year was 193,000 square feet.

• We opened 50 auto service centers in 1968, making a total of 200 in operation at year end, and we plan to open more than 30 in 1969.

• During 1968 we opened 32 catalog desks, and in 1969 the outlook is for approximately 250 more. This increase will be made possible by the opening of the Atlanta distribution center scheduled for this summer. This two-million square-foot catalog distribution center will provide much faster service to our customers in the southern states and permit extension of catalog sales into mid-Atlantic and northeastern markets.

• We plan to add about four million square feet of store space in 1969, comprising 32 new stores, including 22 relocations. The reduction in total new store space to be opened, as compared with 1968, has been caused by delays encountered by developers.

Despite the income tax surcharge which was enacted to check inflation, consumer demand in 1968 remained high. There are several uncertainties ahead. The income tax surcharge may have its first noticeable effect on consumer spending this year. Increased social security taxes became payable the first of this year, with both employers and employees contributing. It remains to be seen what effect these factors, and the present restrictive monetary policy, will have on consumer spending.

However, we expect that our plans and programs will enable us to make further progress in 1969. We are fortunate to have suppliers who provide us with both excellent service and quality merchandise. And we have confidence in the ability of our people to carry out our planned objectives.

Cecil L. Wright,
President

William M. Batten
Chairman of the Board

Cecil L. Wright
President

March 24, 1969

Development and Planning
by Oakley S. Evans,
Vice President and Director of Corporate Development

Our work in Corporate Development includes real estate, store planning, foreign markets, consumer financial services, and distribution services.

Real Estate: We have studied all of the major markets in the country very carefully and have set up a priority list. We feel it sounder to penetrate markets on a priority basis rather than scatter our shots. If there are two equal markets, and we have a base in one and not the other, we will strengthen the base we already have before tackling the other.

In some cases, we are entering still-developing areas ahead of the population because the other option is to miss being in these locations altogether. For example, our new store in Grand Rapids, Michigan, is located on the periphery of the city, where there has not been heavy population growth yet. However, the store is adjacent to a new beltway system and interstate highways. Another example is our new Indianapolis store, which is located on the fringe of the city.

Back in 1960 and 1961 we had to do some "selling" to be considered as a major tenant in a new shopping center, because we had been a soft-goods, junior department store operation until that time.

Conditions changed after we began opening full-line stores in 1963. The success of these stores, the attractiveness of the merchandise we carry, and the customer acceptance we have received has created a new Penney image.

Today we are frequently the anchor store that is used by a new shopping center developer in order to attract other important merchants. This represents an important change.

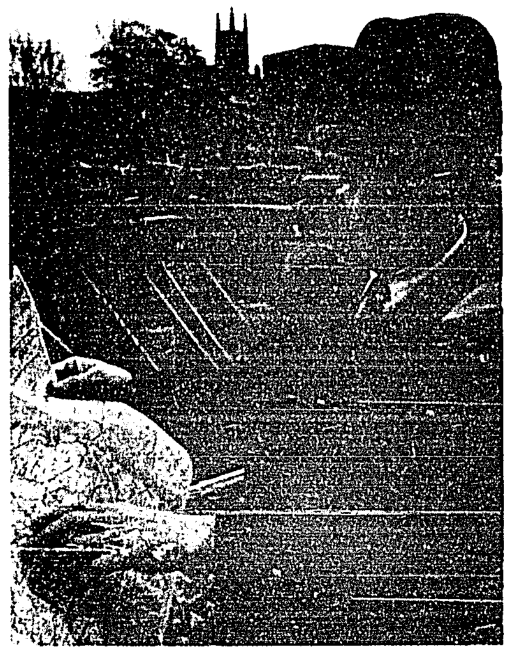
Store Planning: At Penney's we do not have a stereotyped store. We attempt to make our store fit its environment. An outstanding example of this is the one we are now planning for Monterey, California, which will have a Spanish motif and will be situated in an old Spanish downtown environment.

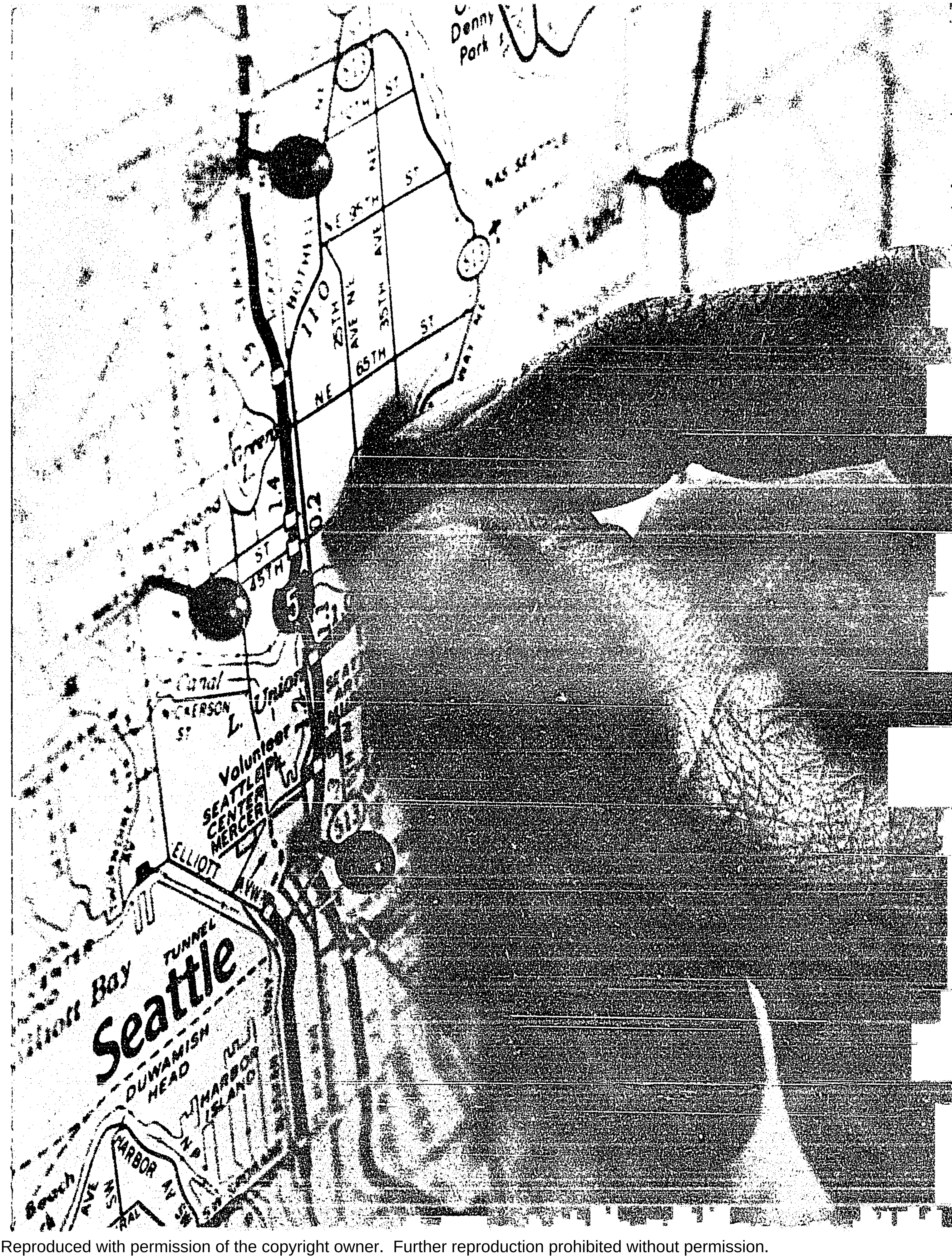
There are definite criteria, however, that apply to all Penney stores. They include merchandising, architecture, fixturing, store decor, and department locations, which must work together to project a total image of fashion, youthfulness, and high quality.

What do we consider to be the important factors for going into a shopping center? First, the center must be located where there is sufficient population immediately surrounding it or where there are road patterns that permit customers to travel easily to the center. Next, we determine whether the shopping center offers the right mix of merchants to make it appealing for customers to satisfy most of their wants.

Penney's has studied major metropolitan markets, and has established a national priority list for those growth markets offering the greatest opportunities. Seattle is one of these priority markets.

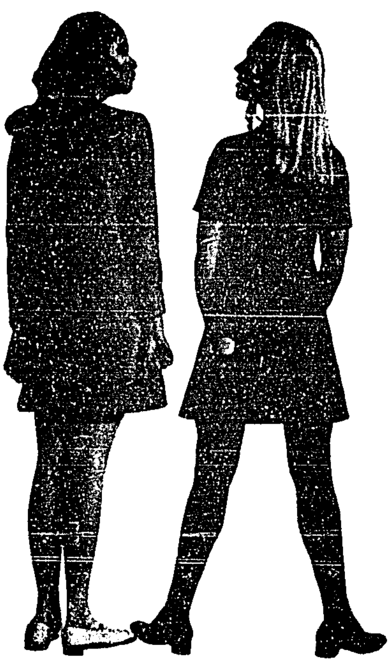
Oakley S. Evans,
Vice President and Director of Corporate Development.




Denny Park
Seattle
TUNNEL
DUWAMISH HEAD
HARBOR ISLAND
ELLIOTT
Volunteer Pk
SEATTLE CENTER
MERCER
Canal
NE 65TH
45TH
ST

Penney's tries to make its stores fit into their local environment. Our new store in San Juan, Puerto Rico, is a good example. It has a Caribbean motif which is reflected in its architecture, store fixtures, and merchandise.

An important example of our fashion leadership is our Young International Designer Program. It has been well accepted by both Penney's store and catalog customers.



Then, we look at the specific characteristics of the site itself. Is there adequate parking? Is it a quality center? Does it have attractive architectural design? Does it have an enclosed air-conditioned mall? These are very important features of practically every major shopping center these days.

The composition of the central city has changed radically. There are many urban areas where businesses have moved out, and lower income groups have moved in. However, a new development is already under way, which is often assisted by urban renewal programs.

Urban renewal is going to be important in the total metropolitan market of the future; and if we do not develop Penney stores in the urban areas that will be revitalized, we will be missing opportunities.

As private enterprise becomes more acquainted with what has to be done, it can, with government participation where required, help develop urban renewal programs more effectively.

In 1969 our own participation in urban redevelopment will be mainly in planning rather than in actual store openings. We are actively involved in a dozen redevelopment projects which we have been working on for the past two or three years.

This past year we substantially expanded our downtown store in Salt Lake City.

In the Wellston section of St. Louis, where 95 per cent of the population is non-white, we completely modernized our store and added new lines of merchandise. Though this store is located in a secondary business district, we took a substantial extension on our lease because we believe our investment will prove to be worthwhile.

In downtown Stamford, Connecticut, we recently reached an agreement to participate in a major urban renewal project, because we anticipate a great potential for additional business there. Such a commitment also reflects our confidence in urban communities and their ability to renew themselves.

Foreign Markets: In 1968, we made an investment in Sarma, S.A., one of the largest retailers in Belgium.

Sarma operates self-service supermarkets, restaurants, and combination food and general merchandise stores located in shopping districts, downtown areas, and shopping centers. They range in size from three thousand to 50 thousand square feet.

Consumer Financial Services: Marketing of accident and health insurance was expanded in 1968 in 43 states with good results. Our sales effort to date has been directed primarily to Penney credit card customers through the use of direct mail.

We initiated in 1968 test marketing of life insurance, and this will be developed further in 1969. We regard the potential for our Company in the field of consumer financial services as excellent.

Stores
by George S. Stewart,
Vice President and Director of Stores

Today the American consumer is better educated. She is a more sophisticated shopper, looking for more convenient ways to shop, making sharper distinctions about the quality merchandise she buys. She expects better service, and expects to deal with more sophisticated merchants. To meet her demands, Penney's has expanded its merchandise lines to include a greater range of items. We want to provide one-stop shopping for our customers.

We have added fur and bridal salons to our stores. We have added auto centers, appliances and electronics departments. We have also added Junior Shops, Inn Shops, and home furnishings departments. All of these developments have made a far greater demand upon our associates.

Management and Training: A Penney store requires a high degree of management preparation. The Penney store manager is a trained executive, able to organize his work, to supervise, and to delegate. We have been able to train many store, zone, and field associates and broaden their experience with full-line stores. It is not particularly hard to identify the men and women who are outstanding and moving the fastest. Our job is to move them into positions of more responsibility.

We have accelerated programs in many of our larger stores to train more highly skilled associates to manage Penney stores. Naturally, for many new lines in electronics, home improvement, and automotive, we have recruited experienced specialists from outside the Company.

Before we open a new store we start training people several months in advance. Our new full-line stores each need between 300 and 400 people. Some will receive training by actually doing a job in the store while we are getting set to open. Closer to opening time we have intensive training classes that acquaint our people with the latest sales techniques. After the opening, we have a carry-forward training program. It is a never-ending process and we are constantly trying to upgrade skills. Our Company through the years has believed in training and promotion from within. So we make every effort to help people realize their potential. Training is probably one of the biggest "people" activities of the Penney Company.

We make an all-out effort to assure that our motto of "Always First Quality" is supported by courteous service. Customer service is one of our highest priorities, something every retailer should be working to maintain and improve.

We are stepping up our effort to train and recruit women for management positions in stores and field assignments that support store operations.

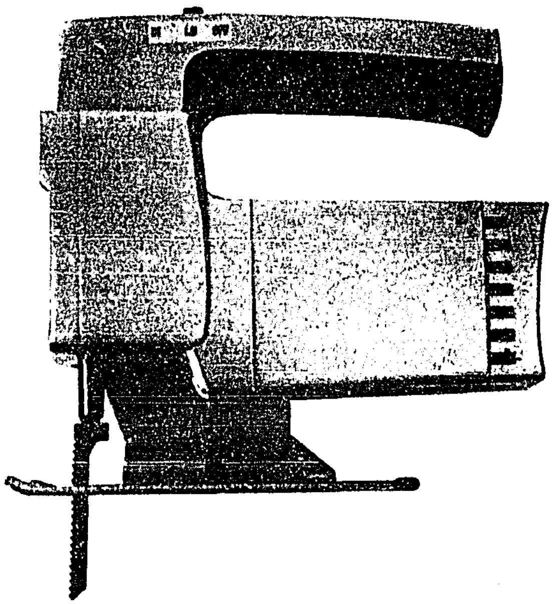
We have been applying our training know-how to the training of hard-core unemployed people. We found that

Penney's has expanded its merchandise lines to include a greater range of items. Sporting goods, for example, are now a part of the merchandise line of many Penney stores as shown in this ski shop in Tukwila, Washington.

George S. Stewart, Vice President and Director of Stores.

Penney's is attracting the fashion-minded male through its new Inn Shops such as this one in suburban Chicago. The first Inn Shop was opened in January 1968. About 40 are expected to be in operation by the end of 1969.

Penney's emphasis on fashion is in all lines, not just apparel, but in its sheets and pillow cases, major appliances, and even extends to its tool design.



many of the unemployed were relatively young people, and we have employed quite a few of them. We enroll them in our training classes, use the "buddy system," and have found them an excellent source for new associates. In this endeavor we have been working with many groups such as local Urban Leagues. We believe that the diversity of our organization enables us to offer many opportunities.

Our operational concept divides the nation into five zones. Each has a manager with a staff of professional merchandisers. And there are a total of 52 districts, each with a manager and a group of stores assigned to him.

The zone staff merchandisers make periodic visits to the central office and review all merchandise lines before they become part of a recommended merchandise assortment for the Company. But the Penney store manager is the key man, and he has broad latitude in selecting the type of merchandise he sells in his store, at the price ranges his customers expect. He is personally responsible for volume and profit in his store.

Finance
by Kenneth S. Axelson,
Vice President and Director of Finance and Administration

There were many noteworthy developments in 1968.

Convertible Debentures: In July we came to market with a $125,000,000, twenty-five year, convertible subordinated debenture issue. These debentures carry a 4¼ per cent interest rate and are convertible into Penney common stock at $50 per share after giving effect to the recent two-for-one stock split. The conversion price at the time of offering represented a premium of approximately 22 per cent over the market price of our common stock.

The funds raised through this issue materially strengthen the capital structure of the Company and place us in an excellent position to continue our expansion. The convertible debentures are listed on the New York Stock Exchange. We have reserved 2.5 million shares for conversion purposes.

Stock Split, Dividend Raised: Stockholders at a special meeting in October approved a two-for-one split of our common stock, and an increase in the authorized number of common shares from 27 million to 75 million, and authorized five million shares of preferred stock. None of the preferred shares is currently outstanding.

The dividend on common stock was increased with the November 1 dividend payment from an indicated annual rate of 90 cents per share to $1.00 per share, an increase of 11 per cent. This was accomplished by increasing the regular quarterly dividend from 20 cents to 25 cents per share and eliminating the extra dividend that had been paid on February 1 in recent years. This is the third dividend increase in the past four years and represents an increase of 33 per cent over the rate paid in 1964.

Acquisitions: Still another important development was the acquisition of the Thrift Drug Company of Pennsylvania which was completed on March 12, 1969. The acquisition was effected through the issuance of 1,628,304 shares of Penney's common stock at the rate of 1.35 for each of Thrift's outstanding shares. This transaction, although completed after the close of our 1968 fiscal year, has been accounted for on the basis of a pooling of interests, and accordingly the financial statements for 1968 and the prior year reflect the pooling. This accounting treatment had the effect of reducing earnings per share for 1968 by two cents, and 1967 by one cent.

We made our first investment overseas in October when we acquired for $8.6 million an interest in excess of 20 per cent in Sarma, S.A., one of the largest retail chains in Belgium. Funds for this purpose were secured by borrowing under a Eurodollar revolving credit agreement. Our investment in Sarma, S. A., is carried at cost.

Taxes: Due mainly to the Federal income tax surcharge enacted retroactively to January 1, 1968, the effective Federal income tax rate for 1968 rose to 51.9 per cent compared with 46.1 per cent in 1967. The surcharge for 1968 was equal to 22 cents per share. The investment tax credit was $3.4 million or seven cents per share in 1968, down from $3.8 million, or eight cents per share, in the prior year. Taxes other than Federal income taxes increased 21 per cent to $51 million from 1967's total of $42 million.

Capital Expenditures: Capital expenditures totaled $127 million in 1968, compared with $111 million in 1967. In 1969, we anticipate that capital spending will be greater than in 1968.

Credit Operations: Credit sales under our regular charge and time payment accounts increased by more than $165 million to nearly $1.2 billion in 1968, an increase of 15.9 per cent. Credit accounted for 36.1 per cent of total sales compared with 35.9 per cent in 1967. Net customer balances at year end reached $589 million, up $92 million, or 18.5 per cent over 1967's level of $497 million.

The average number of customer accounts with outstanding balances at year end rose to 6.5 million. Our time payment accounts have been increasing at a more rapid rate than our regular charge accounts. This reflects the growth in sales of big ticket items such as washing machines, refrigerators, and TV sets in our growing number of full-line stores.

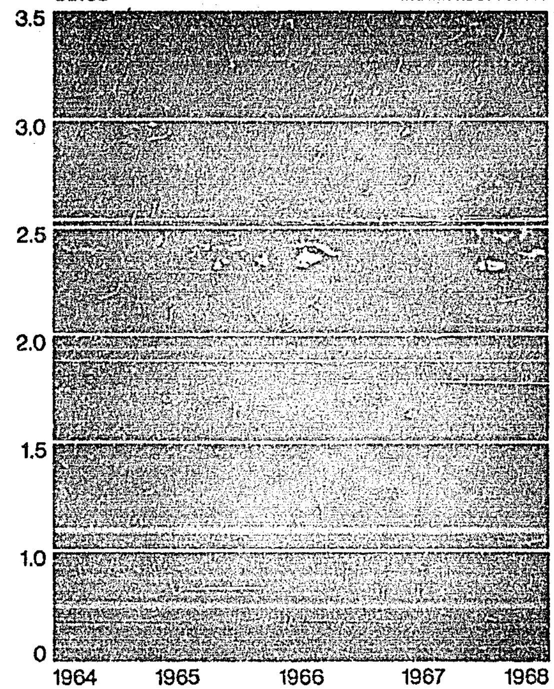
Net bad debt losses reflected a favorable trend in 1968, dropping to 0.8 per cent from last year's 1.1 per cent.

Other Financing: In 1968 we continued the sale-leaseback program inaugurated in 1967. Sale-leasebacks provided $49 million during the year. We plan to continue this program in 1969.

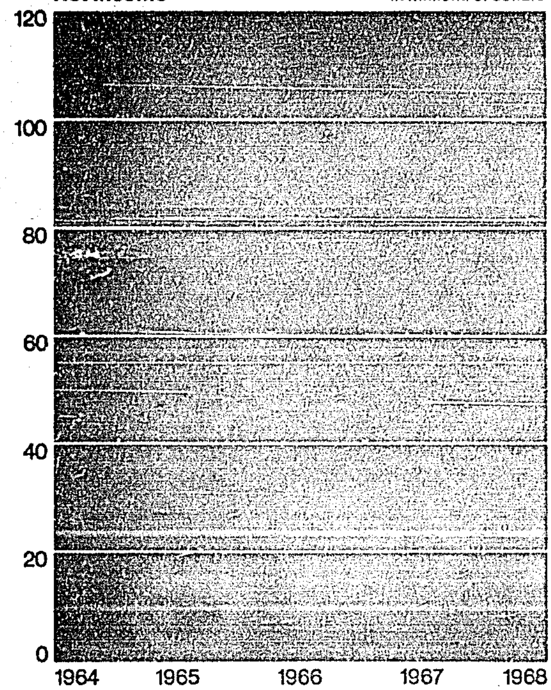
In the latter part of 1968, the Company and J. C. Penney Financial Corporation cancelled the $100 million revolving credit agreement which had been jointly arranged in 1967

Kenneth S. Axelson, Vice President and Director of Finance and Administration (left) and Arthur Jacobsen, Treasurer (right).

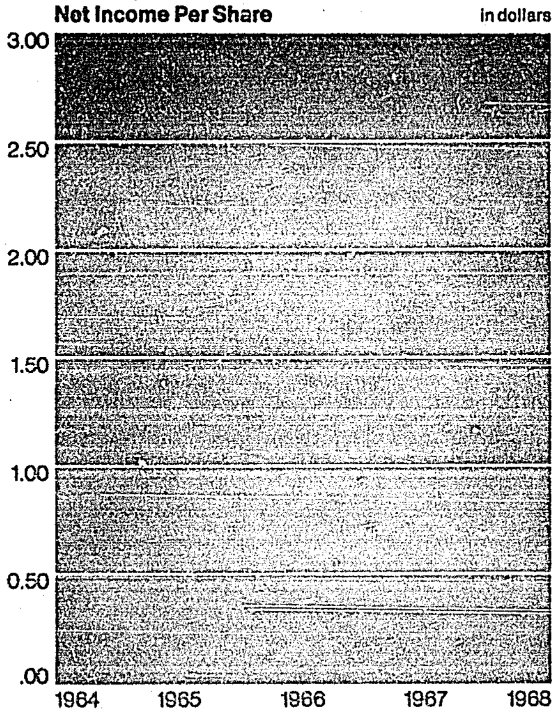
Sales in billions of dollars



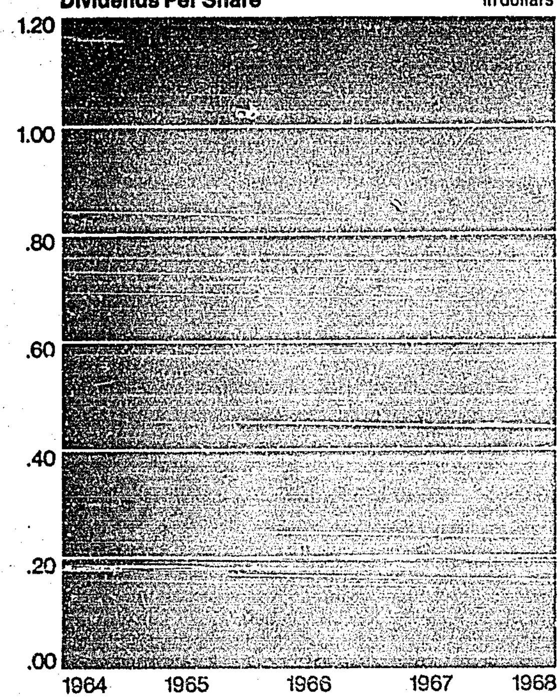
Net Income in millions of dollars



Net Income Per Share in dollars



Dividends Per Share in dollars



Statement of Income

Statement of Income	52 Weeks Ended January 25, 1969	52 Weeks Ended January 27, 1968
Sales	$3,322,621,612	$2,881,323,343
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	2,357,372,360	2,077,772,955
Selling, general, and administrative expenses	707,489,380	609,837,415
Interest	30,563,031	23,845,228
Total costs and expenses	3,095,424,771	2,711,455,598
Income before Federal income taxes	227,196,841	169,867,745
Federal income taxes—including tax effects of $18,200,000 and $4,100,000	117,945,000	78,244,800
Net income	$ 109,251,841	$ 91,622,945
Per share of common stock	$2.12	$1.78

Statement of Retained Earnings

Statement of Retained Earnings		
Retained earnings—beginning of year	$ 485,019,818	$ 438,988,348
Net income for the year	109,251,841	91,622,945
Dividends	(45,973,454)	(45,591,475)
Retained earnings—end of year	$ 548,298,205	$ 485,019,818

See notes to financial statements on page 19.

Source and Use of Funds	52 Weeks Ended January 25, 1969	January 27, 1968
Funds were made available from		
Net income	$ 109,251,841	$ 91,622,945
Depreciation (principally straight line)	28,672,554	26,968,592
Sale and leaseback of properties	48,972,612	36,973,473
Sale of convertible debentures	123,593,750	—
	$ 310,490,757	$155,565,010
Funds were used for		
Dividends	$ 45,973,454	$ 45,591,475
Capital expenditures	126,688,595	110,746,090
Increase in investment in subsidiary companies	7,326,204	28,173,751
Increase in working capital and other items	130,502,504	(28,946,306)
	$ 310,490,757	$155,565,010

Accountants' Report

To the Stockholders and the Board of Directors of
J. C. Penney Company, Inc.

We have examined the balance sheet of J.C. Penney Company, Inc. and consolidated subsidiaries as of January 25, 1969 and the related statements of income and retained earnings and the statement of source and use of funds for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As regards the financial statements of Thrift Drug Company of Pennsylvania, a consolidated subsidiary acquired subsequent to year end, we have been furnished with the report of other independent public accountants.

In our opinion, based on our examination and the aforementioned report of other independent public accountants, the accompanying financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 25, 1969 and the results of their operations for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and use of funds of J. C. Penney Company, Inc. and consolidated subsidiaries for the 52 weeks ended January 25, 1969 presents fairly the information shown therein.

New York, N.Y. March 24, 1969

Peat, Marwick, Mitchell & Co.

Balance Sheet

Assets	January 25, 1969	January 27, 1968
Current assets		
Cash	$ 59,329,260	$ 57,514,053
Receivables, less allowance for doubtful accounts of $18,247,094 and $15,392,045	618,588,683	522,080,240
Less net amount sold to J. C. Penney Financial Corporation	532,488,426	483,244,496
Net receivables	86,100,257	38,835,744
Merchandise, at the lower of cost or market determined mainly by the retail method	613,246,304	484,802,174
Properties to be sold under sale and leaseback agreements	18,637,151	15,002,842
Prepaid expenses	15,082,740	13,862,789
Total current assets	792,395,712	610,017,602
Investment in subsidiary companies	95,240,887	87,914,683
Properties, at cost		
Land	37,333,852	20,592,235
Buildings, less depreciation of $8,312,187 and $6,352,688	67,825,164	64,293,105
Fixtures and equipment, less depreciation of $156,874,581 and $138,195,150	164,846,771	139,715,137
Leasehold improvements, less amortization of $6,308,534 and $5,958,753	19,692,999	16,470,665
Total properties	289,698,786	241,071,142
Other assets	10,223,215	—
	$1,187,558,600	$939,003,427

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 334,356,567	$239,342,244
Due to J. C. Penney Financial Corporation	—	55,829,416
Dividend payable	12,496,900	14,969,052
Federal income taxes	29,634,203	27,825,069
Deferred credits, principally tax effects applicable to installment sales	78,400,000	63,750,000
Total current liabilities	454,887,670	401,715,781
Long-term debt, 4¼% convertible subordinated debentures due 1993	125,000,000	—
Deferred credits, principally tax effects applicable to depreciation	12,400,000	8,600,000
Stockholders' equity		
Preferred stock without par value: Authorized, 5,000,000 shares—issued, none		
Common stock, par value 50¢: Authorized, 75,000,000 shares—issued, 51,616,502 shares	46,972,725	43,667,828
Retained earnings	548,298,205	485,019,818
Total stockholders' equity	595,270,930	528,687,646
	$1,187,558,600	$939,003,427

See notes to financial statements on page 19.

Notes to Financial Statements

Principles of Consolidation The financial statements include the accounts of J. C. Penney Company, Inc. and its merchandising and real estate subsidiaries. Thrift Drug Company of Pennsylvania, acquired on March 12. 1969 in exchange for 1,628,304 shares of common stock, is included retroactively on a pooling of interests basis. The investment in subsidiary companies includes three wholly-owned subsidiaries—J. C. Penney Financial Corporation and two insurance companies—which are carried at cost plus equity in net income since formation or acquisition.

Substantially all the income of J. C. Penney Financial Corporation is derived from the Company, and all Financial's income has been offset against interest expense. The Federal income taxes applicable to Financial's income are included in Federal income taxes in the statement of income. Following is a summary of the audited balance sheet of J. C. Penney Financial Corporation:

	January 25, 1969
Customer receivables purchased from J. C. Penney Company, Inc., less 5% withheld pending collection	$532,488,426
Cash and short-term investments	20,250,147
Other assets	1,760,795
	$554,499,368
Notes payable	$361,484,129
Accrued liabilities	4,195,813
Long-term debt	100,000,000
Equity of J. C. Penney Company, Inc.	88,819,426
	$554,499,368

Leases The Company conducts the major part of its operations from leased premises. Substantially all leases will expire during the next 35 years; in the normal course of business, however, leases are renewed or replaced by leases on other properties. Minimum annual rentals at January 25, 1969 amounted to approximately $53 million; rent expense, including rent based on sales, was $91,817,954 in 1968 and $79,524,247 in 1967.

Retirement Plan Full-time employees of the Company become eligible to participate in the Company's retirement plan after 30 months of service. The plan consists of a contributory pension fund and a deferred profit-sharing fund. The aggregate Company contribution under the plan, based on income, amounted to $19,382,575 in 1968 and $14,434,706 in 1967. Accrued pension benefits have been fully funded.

Long-Term Debt The debentures are convertible into common stock at $50 per share; 2,500,000 shares are reserved for conversion. An annual five per cent mandatory sinking fund commences in 1979, but the debentures are redeemable by the Company at any time.

Under the terms of the indenture approximately $138,000,000 of retained earnings at January 25, 1969 was free of restrictions on payment of cash dividends and purchase of the Company's common stock.

Stock Options At January 25, 1969 there were 545,205 shares of stock reserved for qualified stock option plans. Shares under options were as follows:

	Shares	Price Range
Balance at beginning of year	302,700	$28.81–34.00
Granted	270,665	22.59–33.16
Exercised	(91,360)	28.81–34.00
Expired	(7,000)	28.81–34.00
Balance at end of year	475,005	$22.59–34.00

Options for 163,105 shares were exercisable at the end of the year.

A stock option for 560 shares granted in connection with an acquisition in 1962 is exercisable at $19.51 per share on or before May 16, 1971.

Five-Year Financial Review*

Results for year

Sales

Credit sales—per cent of total sales

Income before Federal taxes

  Per cent of sales

Net income

  Per cent of sales

  Per cent of stockholders' equity

Dividends

Increase in retained earnings

Depreciation

Capital expenditures

Per share results**

Net income

Dividends

Financial position

Working capital

Customer receivables (net)

  J. C. Penney Financial Corporation

  J. C. Penney Company, Inc.

Merchandise inventories

Stockholders' equity

Retail facilities

Penney stores

Treasure Island stores

Catalog sales centers

Thrift Drug stores

Store space—in millions of gross square feet

Stockholders and employees

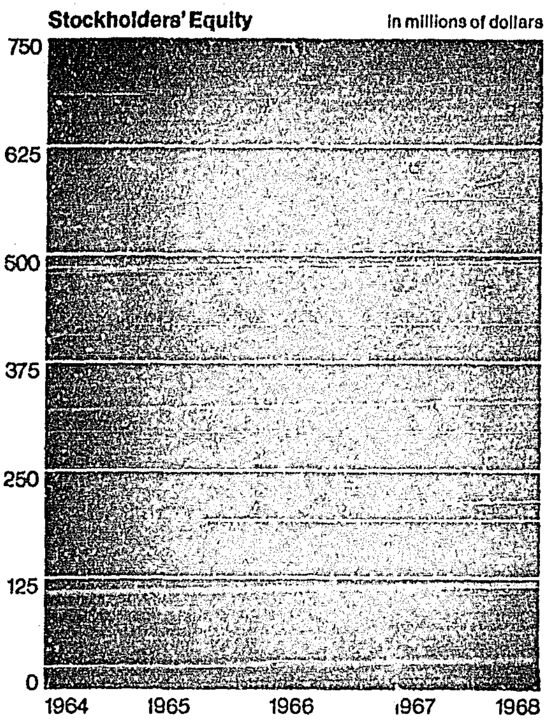
Number of stockholders

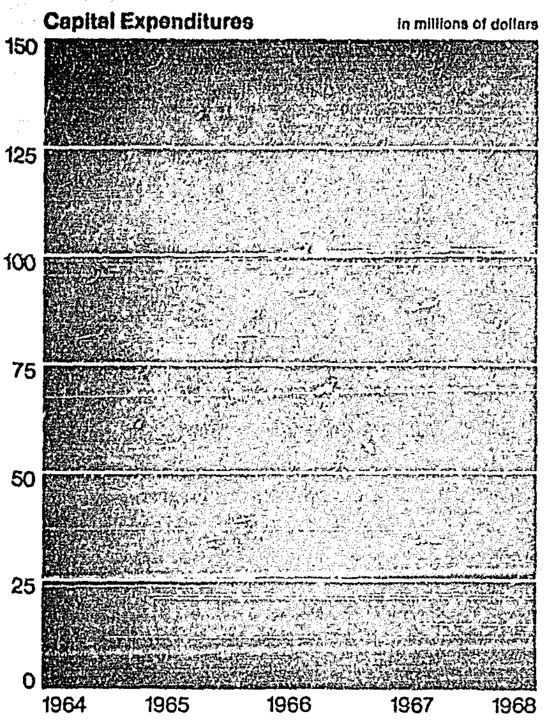
Number of employees

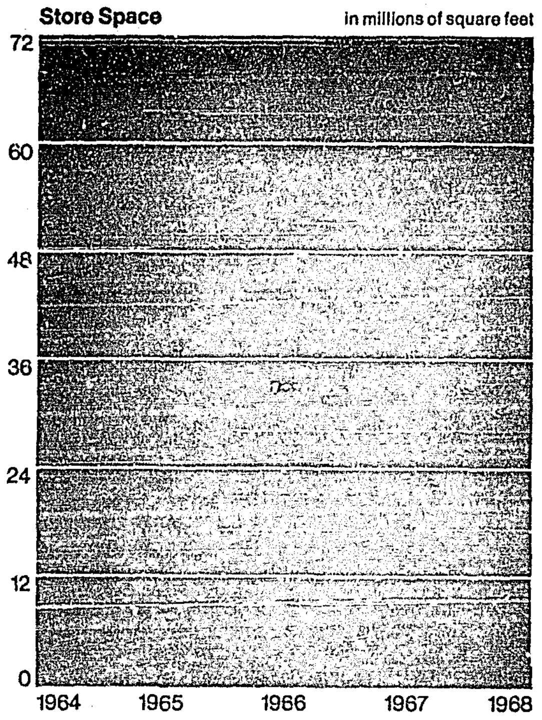
*All figures, except dividends per share, reflect the acquisition of Thrift Drug Company of Pennsylvania in March 1969, on a pooling of interests basis.

**Retroactively adjusted to give effect to the two-for-one stock split in October 1968.

1968	1967	1966	1965	1964
$ 3,322,621,612	$ 2,881,323,343	$ 2,664,963,332	$ 2,382,469,088	$ 2,145,571,007
36.1	35.9	33.7	31.8	29.3
227,196,841	169,867,745	149,776,805	147,045,370	129,439,435
6.8	5.9	5.6	6.2	6.0
109,251,841	91,622,945	80,737,705	80,139,670	69,101,135
3.3	3.2	3.0	3.4	3.2
20.7	19.1	18.2	19.7	18.8
45,973,454	45,591,475	43,586,758	43,375,135	37,680,731
63,278,387	46,031,470	37,150,947	36,764,535	36,854,266
28,672,554	26,968,592	23,954,217	20,071,458	17,341,910
126,688,595	110,746,090	71,412,651	46,380,422	40,495,476
2.12	1.78	1.57	1.56	1.35
.90	.90	.86	.86	.75
337,508,042	208,301,821	236,519,604	249,358,679	237,226,437
532,488,426	483,244,496	439,941,357	298,672,486	187,998,214
56,728,008	13,828,915	12,654,080	62,961,474	101,080,971
613,246,304	484,802,174	489,206,217	395,190,924	318,977,394
595,270,930	528,687,646	480,146,938	442,789,146	405,917,668
1652	1658	1656	1664	1671
10	6	5	5	5
660	637	565	458	405
157	148	138	131	123
63.8	57.7	52.2	48.4	45.2
58,124	54,551	54,489	54,074	52,356
98,000	89,500	79,000	67,500	58,000


Stockholders' Equity
in millions of dollars
750
625
500
375
250
125
0
1964
1965
1966
1967
1968


Capital Expenditures
in millions of dollars
150
125
100
75
50
25
0
1964
1965
1966
1967
1968


Store Space
in millions of square feet
72
60
48
36
24
12
0
1964
1965
1966
1967
1968

with a group of banks. The proceeds from our convertible debentures eliminated the need for this revolving credit. During the year lines of credit extended to us by banks, available to both Penney's and J. C. Penney Financial Corporation, increased by $56 million to a total of $467 million at the end of the year. None of these lines was utilized during the year.

J. C. Penney Financial Corporation: The name of our finance subsidiary was changed from J. C. Penney Credit Corporation to J. C. Penney Financial Corporation on January 1, 1969. The new name, we believe, more accurately reflects the purpose and activities of this subsidiary. It will continue purchasing customer receivables from Penney's and financing them through the sale of commercial paper and long-term borrowings. Receivables purchased from Penney's during the year increased from $1,044 million in 1967 to $1,199 million in 1968. At year end the subsidiary owned $532 million of Penney's customer receivables, up from $483 million a year earlier.

Net income of J. C. Penney Financial Corporation rose to $7.5 million from $6.5 million in 1967, all of which was added to retained earnings. The equity in this subsidiary now totals $89 million.

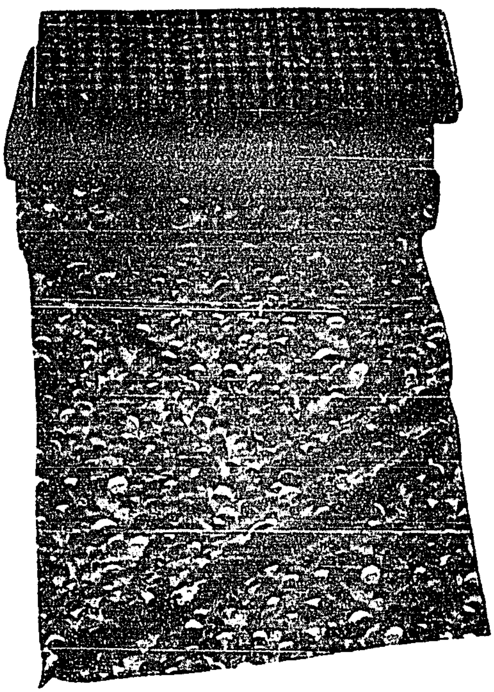
While we have commented on this in the past, we again wish to point out that the earnings of J. C. Penney Financial Corporation are not derived from service charges on customer receivables. The parent receives this income and also bears the cost of administering the retail credit program. The gross income of the finance subsidiary represents monthly charges to Penney's to cover the subsidiary's fixed charges, which are chiefly interest on its borrowings. These monthly charges are designed to cover the fixed charges of the subsidiary at least one and one-half times.

Shareholder Services: Arrangements were made during the year for the establishment of a transfer agent and registrar in Chicago in addition to New York. The transfer agent is The Northern Trust Company, and the registrar is Continental Illinois National Bank and Trust Company of Chicago. This arrangement should be particularly useful to stockholders in the mid-west in accomplishing the prompt transfer of their stock.

Data Processing: During 1968 our data centers installed the latest in computer systems, capable of handling up to 15 programs simultaneously and significantly reducing operating costs. To take advantage of these advances, a new semi-automated stock control system was designed and installed, to assist in improving merchandise replenishment capabilities. The system provides more significant and timely information to maintain the Company's merchandising position on traditional staple lines. Similar improvements are under way in support of fashion and promotional merchandise.

A computer system for payroll accounting has been ex-

Today's young people often sew their own fashion garments. This has been an important factor in increasing Penney's sales of colorful fabrics.



panded nationwide. This system provides improved payroll administration, as well as more complete statistical data for personnel analyses.

A system for inventory management control was expanded and now services warehouse activities at New York, Memphis, and Buena Park, California, achieving major cost reductions in paperwork processing while providing key merchandising information for inventory managers.

Our technical experts developed a new computer programming language called PRISM. Through its use our own system development time and costs are sharply reduced and it is being marketed to other major computer users under a royalty arrangement.

Sales and Merchandising
by Walter J. Neppl,
Vice President and General Sales and
Merchandise Manager

We are trying to do everything possible to determine and satisfy our customers' needs and wants. This is a total Company effort, involving our associates and suppliers. To help us, we receive reports on soft goods purchases from a consumer panel made up of about 7,000 families, representing a cross section of the country. They tell us what they buy from Penney's and what merchandise and brands they buy from other retailers. This gives us a helpful gauge of our results and opportunities.

Our basic marketing approach is uncomplicated and direct. We want to earn as large a share of our markets as possible by steadily increasing our appeal to as wide a range of American consumers as is economically and operationally feasible. Our commitment to customers is to offer fine quality merchandise that is "value priced" and "fashion right." We call this the "Penney Edge." It is fundamental to our way of doing business. To achieve the "Penney Edge" demands the best efforts of our people.

The Fashion Concept: Penney's success depends to a great extent on our fashion awareness and the speed with which we translate it into desirable, salable merchandise. You will hear fashion defined in a variety of ways. One definition might be: Fashion is the "Spirit of Youth." There is no question that the youth market has had a significant impact on fashion, and will probably maintain this influence in years to come. Youthful fashions are not limited to young people. They are wanted by all age groups who are youthful in spirit.

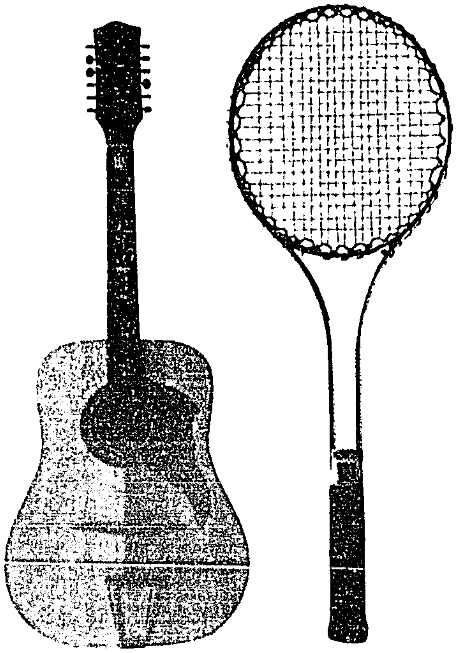
It is important to recognize where fashion comes from today. In years past, fashion started at the top—at the high price brackets—and then filtered down to the volume market—usually taking months. Today fashion trends are also starting at the mass demand level. So it is now possible for Penney's to introduce fashions and be among the

In 1969 Penney's plans to open three truck service centers. Each will offer parts, accessories, repair services, and a truck wash (shown here). The prototype for these centers opened this past November in Buena Park, California.

Walter J. Neppl, Vice President and General Sales and Merchandise Manager.

Penney's opened four Treasure Island stores in Atlanta in 1968. The Treasure Island operation has moved beyond its original status as a working experimental laboratory and is now an operating division of the Company.

Typical of new lines which Penney's has introduced to its customers in the last five years are musical instruments and sporting goods.



innovators while this was not possible a few years ago.

An important example of our fashion leadership is our Young International Designer Program. We began this program in 1963 when we retained Mary Quant. Later we added Victoire and, most recently, a young American designer, Susie. Our designer program has been well accepted by both our retail store and catalog customers.

Because we have become an important leader in fashion, suppliers of fashion merchandise are now interested in selling their apparel to us.

The Shop Concept: Our Junior Shops also help us attract the youth market. By the end of 1968, we had 85 Junior Shops within our women's apparel departments and we plan to open 17 more in 1969. Furthermore, in stores where space will not allow a physical separation we have updated our junior presentations. Our Junior Shops have a relatively large central display which serves as the focal point of the department. The Junior Shops are designed to create a fashion atmosphere by highlighting individual items in special settings.

While the women's and girls' lines continue to lead the fashion parade, the impact of fashion can also be seen in our men's and boys' lines.

We are attracting the fashion-minded male through our new Inn Shops. These are men's fashion shops located in the men's department, but they have a separate identity. They have a masculine decor. We emphasize the "total look" in them, presenting ensembles of the latest in men's fashions. We opened our first Inn Shop in January 1968. By the end of 1969 we expect to have about 40 such shops.

Fashion today is really the name of the game. Fashion is all encompassing, too. It is not only in apparel and home furnishings, but also fashion is a vital part of our hard lines merchandise operation as well. All you have to do is walk through one of our new stores. The excitement of new style, color, and freshness is reflected in practically every department. Today, fashion is women's cocktail dresses and it is refrigerators. It is sheets and towels—even work clothing. It is dinnerware, decorative home accessories, portable radios, record players, and automotive merchandise of many kinds. We search for the element of fashion in every area of our business whether it be a Mary Quant dress or a Penncrest typewriter.

Buying Quality: To offer merchandise that is in demand, we must be alert to opportunities wherever merchandise is produced or style trends established. That is why we have buying offices in New York, Miami, Dallas, and Los Angeles, as well as in the Far East and Europe. We have no pre-set ideas of what should be bought or sold in a particular market. If an item develops in the Los Angeles market and looks as if it would be good in many areas, we will offer it to our stores across the country. But if we know the item is keyed strictly to the southern California area, we will only offer it there.

Our buying offices in the Far East and Europe play a key role in covering the international markets in both hard and soft lines. In addition, our buyers travel overseas to inspect the manufacturing facilities as thoroughly as they do in the United States.

Quality at Penney's is an all-out effort, bringing together the knowledge and skills of thoroughly trained buyers, professional merchandise testing and quality control specialists, and top-flight manufacturers, all dedicated to high standards of quality and value.

Over 90 per cent of our merchandise is sold under Penney brand names. One of the key reasons we offer Penney brand merchandise is to achieve tight control over quality and delivery. And we can add our own features that we believe customers want and that offer specific advantages in style, fashion, and performance. Really, the Penney brand is exclusive. It helps us build a strong Penney following for our products. Moreover, we can price items competitively to assure a "Penney Edge."

Catalog
by Donald V. Seibert,
Vice President and Director of
Catalog Sales and Operations

Catalog business today should not be confused with the traditional rural mail order business. The primary thrust for the Penney catalog is to customers in metropolitan markets. The young lady on the cover of this report represents a typical urban catalog customer. Our best catalog customers are also good Penney retail store customers. Moreover, they are usually Penney charge-account customers. The Penney urban customer uses her catalog in a number of ways. She usually buys from it by phone or mail. She also uses it to help plan her store purchases.

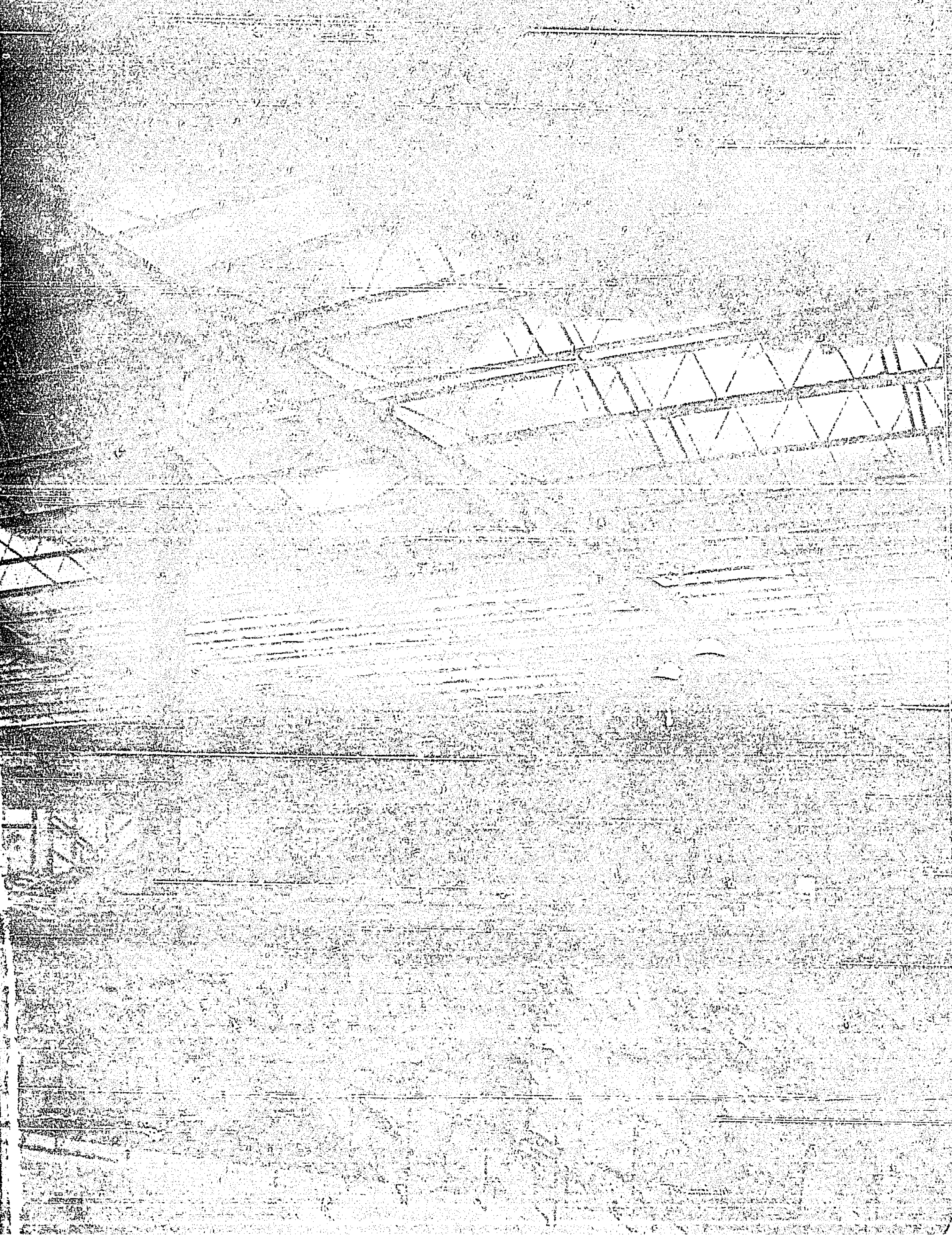
Our customers like the convenience of catalog shopping. They are not always able to leave home to shop. At times they just do not want to go out into the crowds. Our catalog presents the assortment of merchandise they want and offers a convenient way of shopping for it from home.

Our catalog also serves as an "extension" of the Penney store itself. In effect, every Penney store, with a catalog desk, regardless of its size, offers its customers the entire merchandise assortment in the two-million square-foot distribution center that supports it.

We have significantly changed the merchandise assortment in our catalog. We do not simply duplicate the assortment offered in the larger Penney stores. We get greater Penney market penetration by emphasizing lines in our catalog that we do not have the opportunity to emphasize in our stores. Lines like girls' chubby dresses or women's tall sizes, and extra-large sizes for men, have large markets if you can serve them without creating store inventory problems. The catalog offers us this opportunity.

Penney's will open its second catalog distribution center this summer. This two-million square-foot facility in Atlanta will enable the Company to enter new markets in the northeast as well as improve its service to its customers in the southeast and southwest.

Donald V. Seibert, Vice President and Director of Catalog Sales and Operations.



The new Buena Park Distribution Center contains many of the most advanced warehousing techniques—high-rise ceilings, mechanized conveyor drag lines, semi-automated stock-picking equipment, and computerized inventory control.

Woodrow P. Campbell, Vice President and Director of Distribution and Materials Management.

Technology. We owe much of our success in the catalog business to modern technology. Because we have just recently entered this business, it is easier for us to take advantage of the latest technologies.

This naturally helps us reduce costs, provide better customer service, and attain more efficient and faster handling. An important by-product of this technological sophistication is the more up-to-date information we get to our buyers to help them make decisions that improve inventory control and at the same time maintain a better balance of merchandise. Furthermore, it enables us to test any number of sales promotion strategies to see what our sales might be if we distributed catalogs to different markets.

In 1968 we were getting our Atlanta catalog distribution center of two-million square feet ready. When we open our Atlanta center this summer, we will expedite our service to customers in the southeast and southwest areas.

We already have a solid base of established customers in these areas because we have been operating catalog desks in stores there for the past two years. Up to now we have been servicing these customers through "break bulk" shipments from our Milwaukee center.

In addition to these presold markets, the Atlanta center will enable us to enter some new markets that we could not service competitively out of Milwaukee. These will include eastern Pennsylvania, New Jersey, Washington, D.C., eastern New York State, and parts of New England.

Opening the Atlanta center offers new opportunities to our Milwaukee center. We will be able to promote more aggressively catalog sales in markets we already serve, as well as enter additional markets.

The Atlanta center will represent one of the most modern merchandise handling facilities in the country. But we do not consider this the ultimate. We are continuing to improve and investigate newer systems to keep abreast of the technological revolution. At the same time, we will continue to pursue merchandise and service opportunities presented by our increasingly knowledgeable customers.

Distribution

by Woodrow P. Campbell,
Vice President and Director of Distribution
and Materials Management

Penney's rapid expansion into hard lines and fashion merchandise demands a broadening of our supporting distribution operations.

Our goals are to provide the finest possible customer service, to maintain a high in-stock ratio, and to furnish fast delivery at the lowest possible distribution cost.

We make use of modern management skills and advanced technologies. Operations research techniques, for example, help us to study various distribution methods, relative costs, and service capabilities. We can evaluate

alternate methods of transportation — air, truck, "piggy-back" freight, containerization—to determine the best routings and distribution facilities for each area of the country.

Distribution Expansion: As a result of our studies, we are now establishing a network of facilities for the distribution of hard lines. We plan to reduce replenishment time to stores serviced through our warehouses, to lower inventory, and to improve customer service. In addition, some of these facilities will incorporate other services, such as common receiving and marking functions, product repair service, and custom carpet workrooms.

Our new Buena Park Distribution Center offers a full range of services to some 50 stores in the Los Angeles area. It also distributes certain lines to seven states in the West. This center contains the most advanced warehousing techniques, including high-rise ceilings, mechanized conveyor drag lines, semi-automated stock-picking equipment, and computerized inventory control.

Systems: This final feature, computerized inventory control, is now essential for our larger distribution facilities because of the volume of merchandise which we must control. Perhaps our major technological achievement this past year was our development of a new system for control of inventory management at Penney's (SCIMP).

SCIMP maintains all records of on-order merchandise, receipts and adjustments. It provides buyers with complete information on inventories and open-to-buy reports.

SCIMP will also enable us to operate a number of warehouses from a central computer processing location. Not only will this provide additional economy in processing, but it also helps to balance stock between all warehouses under system control and to obtain goods from our suppliers with greater efficiency and speed. We are on computer line with some of our larger vendors and are sending orders directly from our computer to our suppliers' computers. This results in faster service and eliminates a vast amount of paper work for both our Company and suppliers.

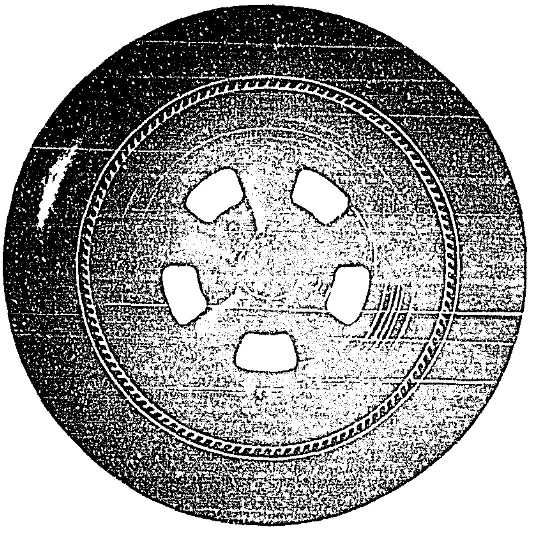
Another use of the computer in controlling inventories and speeding merchandise to our customers is our Fashion Distribution System. Computer-written orders are quickly processed by three modern fashion distribution warehouses in New York, Dallas, and Los Angeles, and shipped to stores throughout the country as fashion trends develop.

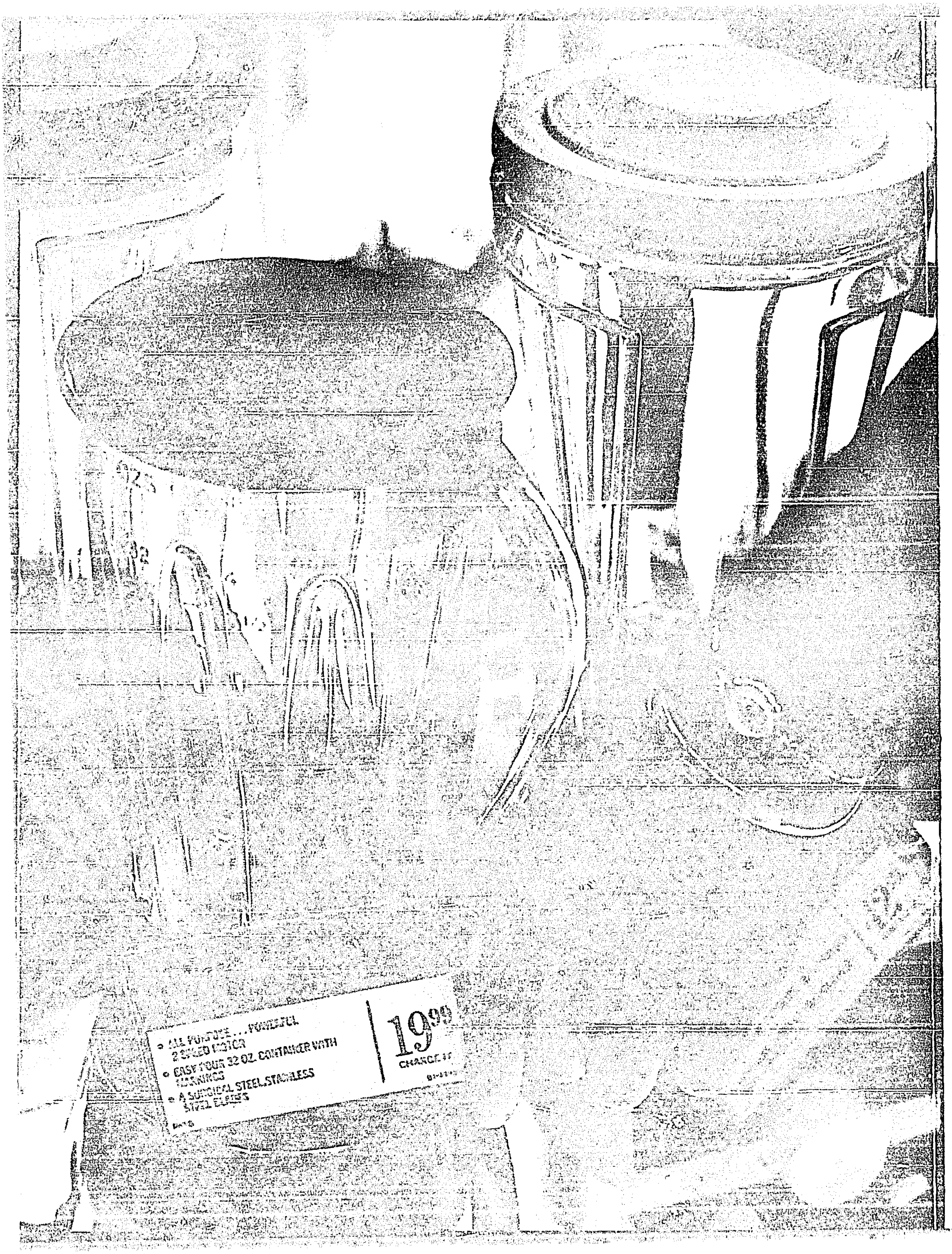
We are making every effort to improve distribution by employing modern computer systems and materials-handling facilities. At the same time, we must look ahead to the distribution needs of the future and make certain that the Penney Company is a leader in technology so that it is able to meet its competition effectively.

We must keep pace with all developments in distribution. They hold the key to improved customer service and lower costs for delivering merchandise. The growth, profit, and performance at Penney's will depend substantially on our ability to recognize which developments we should adopt.

Penney's has opened a custom carpet service at its Buena Park Distribution Center in order to meet the requirements of its home furnishings customers in the Los Angeles area.

The fashion impact is all encompassing... even as reflected in the styling of our El Tigre tire and wheel.




32 OZ. CONTAINER WITH
STEEL
19 99
CHARGE IT

The Penney Product Story

Our Penney brands packaging and labeling inform the customer of product features and safety factors.

We try to tell our customers about the quality advantages of our merchandise in many ways. We tell the story in our advertising, as well as in our in-store presentations. Our Educational and Consumer Relations Department is in close contact with educators and others to inform the consumer about all aspects of merchandise, including quality considerations. Above all, we think our products best tell our merchandise story for us. For over 66 years, we have been building a reputation for quality, value, and fashion.

J. C. Penney Stores and Auto Centers

Alabama—19 stores and 2 auto centers
Alaska—2 stores and 2 auto centers
Arizona—21 stores and 4 auto centers
Arkansas—20 stores and 2 auto centers
California—157 stores and 26 auto centers
Colorado—41 stores and 5 auto centers
Connecticut—5 stores
Delaware—4 stores and 2 auto centers
Florida—36 stores and 10 auto centers
Georgia—28 stores and 8 auto centers
Hawaii—1 store
Idaho—25 stores and 2 auto centers
Illinois—55 stores and 7 auto centers
Indiana—56 stores and 10 auto centers
Iowa—65 stores and 1 auto center
Kansas—56 stores and 4 auto centers
Kentucky—23 stores
Louisiana—16 stores and 2 auto centers
Maine—6 stores
Maryland—7 stores
Massachusetts—5 stores
Michigan—58 stores and 1 auto center
Minnesota—57 stores and 7 auto centers
Mississippi—22 stores
Missouri—54 stores and 5 auto centers
Montana—29 stores
Nebraska—39 stores and 4 auto centers
Nevada—7 stores and 2 auto centers
New Hampshire—3 stores
New Jersey—9 stores and 1 auto center
New Mexico—20 stores and 2 auto centers
New York—37 stores and 3 auto centers
North Carolina—35 stores and 6 auto centers
North Dakota—21 stores and 1 auto center
Ohio—82 stores and 12 auto centers
Oklahoma—46 stores and 2 auto centers
Oregon—37 stores and 4 auto centers
Pennsylvania—61 stores and 10 auto centers
Puerto Rico—1 store and 1 auto center
South Carolina—12 stores and 1 auto center
South Dakota—21 stores
Tennessee—26 stores and 5 auto centers
Texas—138 stores and 17 auto centers
Utah—23 stores and 1 auto center
Vermont—2 stores and 1 auto center
Virginia—23 stores and 4 auto centers
Washington—59 stores and 10 auto centers
West Virginia—13 stores and 1 auto center
Wisconsin—62 stores and 12 auto centers
Wyoming—17 stores

Officers

William M. Batten
Chairman of the Board

Cecil L. Wright
President

Kenneth S. Axelson
Vice President and Director of Finance and Administration

William K. Barry
Vice President and General Merchandise Manager of Soft Lines

Woodrow P. Campbell
Vice President and Director of Distribution and Materials Management

Andrew Cumming
Vice President and Director of Personnel

Oakley S. Evans
Vice President and Director of Corporate Development

Lee S. Moore
Vice President and Sales Manager

Walter J. Neppl
Vice President and General Sales and Merchandise Manager

Donald V. Seibert
Vice President and Director of Catalog Sales and Operations

Charles T. Stewart
Vice President and Secretary and General Counsel

George S. Stewart
Vice President and Director of Stores

Arthur Jacobsen
Treasurer

Robert L. Adair
Controller

Paul R. Kaltinick
Assistant Treasurer

Albert W. Driver, Jr.
Assistant Secretary

Elting H. Smith
Assistant Secretary

John F. Wood
Assistant Controller

Transfer Agents

Chemical Bank
20 Pine Street
New York, New York 10015

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

Directors

J. C. Penney
Company Founder

Kenneth S. Axelson
Vice President

William K. Barry
Vice President

William M. Batten
Chairman of the Board

Oakley S. Evans
Vice President

Albert W. Hughes
Retired Chairman of the Board

Ray H. Jordan
Trustee of Railway Express Agency, Inc., formerly President of J.C. Penney Company, Inc.

Walter J. Neppl
Vice President

Wellington Powell
Retired, formerly Vice President—Marketing, American Telephone and Telegraph Company

Charles T. Stewart
Vice President

George S. Stewart
Vice President

Cecil L. Wright
President

Walter B. Wriston
President, First National City Bank and First National City Corporation

Annual Meeting

Our annual meeting of stockholders will be held at 10 a.m. Tuesday, May 20, 1969, in the Essex House, New York City. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 11, 1969. Your prompt attention to the proxy statement will be appreciated.

Registrars

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Continental Illinois National Bank and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

J.C. Penney Company, Inc. 1301 Avenue of the Americas, New York, NY 10019